January 04, 2020 01:00 AM

# Healthcare industry had highest federal income tax rates in 2018

TARA BANNOW



Modern Healthcare Illustration / Getty Images

Fortune 500 healthcare companies—and insurers in particular—paid much higher federal income taxes last year than their counterparts in other industries, according to a recent study.

The 13 healthcare companies included in the Institute on Taxation and Economic Policy's study of profitable Fortune 500 companies paid an effective tax rate of 20.7% collectively, compared with 11.3% across all industries. The Trump administration's Tax Cuts and Jobs Act slashed the federal corporate income tax rate from 35% to 21% in 2017, but, due to tax breaks and other loopholes, most companies studied paid far less than even the lower rate.

The 11.3% average tax rate in 2018 was the lowest that the institute has identified since it began publishing income tax studies in 1984, although the group has not published reports every year during that time.

A big driver of the higher taxes in healthcare is a doomed Affordable Care Act fee on health insurers. The amount each insurer pays is based on premium revenue. President Donald Trump in late December signed a spending bill repealing that tax in 2021 and beyond.

"It's just one weird example that there is an industry-specific tax that other industries don't have to pay, and it meaningfully affects their effective tax rate," said Matthew Gardner, a senior fellow at the tax institute and lead author of the study, which included 379 companies.

Commercial health insurers generally passed that tax—which was suspended in 2019 but will be in effect in 2020—onto their employer and individual members in the form of higher premiums. America's Health Insurance Plans estimates nearly 5% of consumer premiums pay for various government taxes, spokeswoman Cathryn Donaldson wrote in an email.

"Repealing the Health Insurance Tax and Cadillac Tax will lower insurance premiums for millions of families, seniors, and small business owners," she said. "By including it in this final spending package, Congress and the administration have shown real leadership and taken decisive action to help lower healthcare costs for hardworking Americans."

Another reason healthcare's taxes are high relative to other industries is because the 2017 tax law allowed companies to depreciate major equipment expenses, which greatly benefited the utility and machinery sectors and lowered their overall effective tax rates.

Centene Corp.'s federal income tax rate in 2018 was the highest within healthcare at 39.4%, according to the study. The company paid $498 million in federal income tax on $1.3 billion in profit last year, the study found. Molina Healthcare's tax rate was nearly 28% and Cigna's was 26.8%. Humana's tax rate, by contrast, was only 6.9%. The study did not elaborate on why there was such wide variation in tax rates.

On the health system side, the study found that Tenet Healthcare Corp.'s effective tax rate was -2.4%. In lieu of paying federal income taxes on its $251 million in profit last year, the study found that the Dallas-based hospital chain received a $6 million refund from the Internal Revenue Service.

The study calculated HCA Healthcare's 2018 federal tax rate to be 16.9%, based on $759 million in federal income taxes paid on $4.5 billion in profit. HCA said its tax rate was affected by tax credits for hurricane-related expenses. Universal Health Services' rate was 19.6%, based on $196 million in taxes paid on $997 million in profit, the study

found.

Many companies tout higher effective tax rates than the study did because they include deferred taxes and current state and local taxes in their calculations, whereas the study was limited to current federal income tax. Current tax is the amount paid in that year, while deferred is a tax that the company expects to pay in the future.

Tenet, for example, said in a statement that it paid $176 million in income taxes last year on $639 million in pre-tax income, an effective tax rate of 27.5%. Those numbers include $149 million in deferred taxes and $33 million in state taxes, which were beyond the scope of the institute's report.

Similarly, Centene said it calculated a 34.6% effective tax rate using its total income tax expense. The company, the only insurer to respond to a request for comment, said its high effective tax rate is driven in part by the health insurer fee.

Deferred taxes aren't set in stone; changes in tax law can prompt companies to revalue those liabilities, Gardner said. One example of that was after the passage of the Tax Cuts and Jobs Act in 2017, when all deferred taxes shrank by 40%.

"Until they're paid, it would be missing a big part of the picture and fundamentally misleading to count those taxes as somehow taking money out of the company's bottom line in the current year," Gardner said. "They're just not paying these taxes right now. And as the recent past demonstrates, there's certainly no guarantees they'll end up ever paying them."

Doug Mancino, a partner with Seyfarth Shaw, said he thinks focusing exclusively on federal income tax understates the financial cost of state and local taxes, city and county business taxes, and sales and use taxes.

The Institute on Taxation and Economic Policy report explained its rationale for excluding deferred taxes in an appendix, but Mancino said he would have explained that higher.

"That first impression is that many of these companies don't pay any taxes at all, much less very low tax rates," he said. "If I'm a policymaker, the fact that you publish another report in a subsequent year isn't probably going to be as impactful as the first one."

Dean Ungar, a senior analyst with Moody's Investors Service, said the study simply

provides information about the impact of federal taxes. It doesn't tell a reader everything, but provides a snapshot of information that could be useful, he said.

"Somebody else is welcome to do a different study if they want to look at other factors," he said.

The study also featured different profit figures than the companies reported in their own financial documents. That's because the authors subtracted state income taxes and income from non-controlling interests, which companies don't pay taxes on, to calculate pre-tax income for federal purposes.

The study identified 91 companies that paid no federal income taxes in 2018. Their effective tax rate was -5.9%. A negative tax rate means the company received a tax refund. Another 56 companies paid effective tax rates between 0% and 5%.

Tech giant Amazon received a $129 million federal tax refund on $10.8 billion in profit in 2018, yielding a tax rate of -1.2%, according to the study. Amazon also received one of the largest tax breaks among Fortune 500 companies last year: $2.4 billion.

The second-largest tax break in the study, $3.7 billion, went to J.P. Morgan Chase & Co. The bank's effective federal tax rate was 9.1% in 2018, and the report said it paid $2.9 billion in federal income tax on $31.4 billion in profit.

Amazon and J.P. Morgan have joined with Berkshire Hathaway to form a new company called Haven with the goal of lowering healthcare costs and boosting satisfaction and outcomes for their employees. Eventually, the company will take the solutions it develops to the broader public.

Haven's website says the company is free from profit incentives and constraints. The company, which did not respond to a request for comment, says it is independent from its three parent companies, but draws on their resources and expertise.

Gardner said those companies' lower tax rates deliver a competitive advantage that will make it easier for them to engage in any initiatives.

"If a company is able to persistently harness the tax code to avoid paying income taxes while their competitors must pay at a higher rate, that gives those companies a clear competitive advantage in whatever way they choose to spend their extra cash," he said.

The tax institute has never been able to include Berkshire Hathaway in its reports because the company does not publicly disclose its current federal income tax, Gardner said. Berkshire Hathaway reported $4 billion in pre-tax profit last year, a company filing shows.

The study excluded 121 companies that were not profitable last year and those that did not disclose current federal income taxes.

Gardner said the findings are not meant to imply illegal activity, but rather that companies are working within the laws Congress passed.

“This lousy outcome, I think most people would agree, is pretty clearly, as far as we know, the product of com d Congress to provide for them and that Congre dner said.

“That’s a good thing because it means Congress broke it and Congress can fix it, if policymakers think that this outcome is a bad one,” he said.

**RESOURCES**

Contact Us

Ad Choices

Advertise with Us

Sitemap

**EDITORIAL DEPT**

Submission Guidelines

Code of Ethics

Awards

About Us

**LEGAL**

Terms and Conditions

Privacy Policy

Privacy Request

CRAIN COMMUNICATIONS